

## Message Text

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FOLLOWING REPEAT KUWAIT 2971 ACTION SECSTATE INFO  
ABU DHABI BEIRUT DHAHRAN DOHA JIDDA MANAMA MUSCAT  
TEHRAN BAGHDAD (POUCH) OECD PARIS EC BRUSSELS USDOC  
15 JULY.

QUOTE

LIMITED OFFICIAL USE KUWAIT 2971

COMMERCE FOR MEPD

E.O. 11652: NA

TAGS: ENRG, EIND, KU

SUBJ: KNPC REFINERY PROJECTS

1. KUWAIT NATIONAL PETROLEUM COMPANY (KNPC) MOVING FORWARD  
WITH SEVERAL REFINERY AND RELATED PROJECTS. LARGEST AND MOST  
IMPORTANT IS PLAN TO DEVELOPE NEW GRASS ROOTS REFINERY. BECHTEL  
HAS NOW COMPLETED TECHNICAL AND ECONOMIC FEASIBILITY STUDY WHICH  
KNPC REVIEWING. KNPC MAY DECIDE TO BUILD TWO 250,000 BPD  
REFINERIES AT ANTICIPATED COST OF \$1.4 BILLION EACH. FIRST  
WOULD COME ON STREAM IN 1981 AND IF DECISION IS MADE SOON TO  
BUILD SECOND ONE ALSO, IT WOULD BE READY IN 1982. REFINERIES  
WOULD CONVERT KUWAITI CRUDE TO LOW SULPHUR, LOW BOILING POINT  
PRODUCTS, AND LIKE PRESENT SHUAIBA REFINERY WOULD USE H-OIL  
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PROCESS.

2. CRITICAL REQUIREMENT FOR KNPC IS TO FIND LONG TERM MARUETS AND  
CUSTOMERS. COMPANY EXPECTS THEY WILL BE FOUND IN EUROPE, TAIWAN,

JAPAN, OR PERHAPS IN BRAZIL. US, HOWEVER, NOT CONSIDERED A LIKELY MARKET, BECAUSE OF ITS MANY HINDRANCES TO PRODUCT IMPORTS. KNPC BELIEVES IT IS IMPORTANT TO BE THE FIRST TO BUILD NEW EXPORT REFINERY IN GULF SO THAT IT CAN CAPTURE MARKETS, EQUIPMENT AND PEOPLE TO BUILD REFINERYWN ALL OF WHICH MAY BECOME SCARCE. MOREOMER, GOK MINISTER OF OIL HAS RECENTLY AFFIRMED GOVERNMENTS POLICY OF EMPHASIZING SALE OF KUWAITI PETROLEUM IN REFINED FORM. THEREFORE, APPEARS LIKELY GOK WILL DECIDE BEFORE LONG TO GO FORWARD WITH AT LEAST ONE OF THE 250,000 BPD REFINERIES.

3. KNPC ALSO APPLYING BECHTEL METHODOLOGY AND COMPUTER ANALYSIS TO KOC REFINERY MODERNIZATION STUDY. UNLIKE KNPC SHUAIBA REFINERY KOC REFINERY IS NOT VERY MODER OR SOPHISTICATED. THE WTPPPP BPD REFINERY HAS BEEN RUNNING ONLY AT ABOUT UPPPP BPD RECENTLY DUE TO LOW DEMAND FOR ITS PRODUCTS. KNPC TRYING TO DEFINE MARKET AND WHAT KIND OF REFINERY UOC INSTALLATION SHOULD BECOME. ONE VIEW IS IT IS NOT WORTH MODERIZING AGEING REFINERY BU APPARENTLY MINISTER OF OIL BELIEVES KNO REFINERY MODERIZATION IMPORTANT FOR DOMESTIC POLITICAL REASONS. NOT CLEAR WHAT COST OF MODERIZATION PROJECT WILL BE.

4. IMPROVEMENTS AT SHUAIBA REFINERY ARE U DERWAY. SNAM/PROGETTI HAS COMPLETED DEBOTTLENECKING PROJECT, ALTHOUGH KNPC WAS NOT VERY HAPPY WITH COMPANYS PERFORMANCE AND IT UNLIKELY IT WILL GET ADDITIONAL WORK HEREWM BEFORE LONE REFINERY WILL BE OPERATING AT 180000 BPD LEVEL. CONTRACT FOR \$70 MILLION NEW HYDROCRACKER HAS BEEN SIGNED WITH FOSTER-WHEELER AND IT IS EXPECTED TO COME ON STEAM IN OCTOBER 1977.

5. KNPC ALSO CONTINUING TO PURSUE LUBE OIL BLENDING PLANT PROJECT. HOWEVER DISCUSSIONS WITH MOBIL DID NOT SUCCEED. KNPC IS NOW LIKELY TO WORK WITH SHELL ON THE PROJECT WHICH PROBABLY WILL COST \$7.2 MILLION. SHELL WILL PROVIDE TECHNICAL ASSISTANCE AND CERTAIN RAW MATERIALS AND ADDITIVES. KNPC WILL WANT TO USE MOBILS DESIGN, HOWEVER AND THIS COULD RESULT IN A LEGAL DISPUTE BETWEEN COMPANIES. MOST EQUIPMENT LIKELY TO BE PURCHASED LIMITED OFFICIAL USE  
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IN US.

6. COMMENT: AS DEPARTMENT AWARE GOK RECENTLY NATIONALIZED 40 PERCENT PRIVATE OWNERSHIP OF KNPC. RECENTLY NEW BOARD OF DIRECTORS WAS NAMED BY MINISTER OF OIL. IN HIS POLICY SPEECH TO NATIONAL ASSEMBLY (SEPTELS) MINISTER MADE IT CLEAR KNPC WILL PLAY MAJOR ROLE IN PETROLEUM I DUSTRIES ALTHOUGHT IT NOT CLEAR DEGREE TO SHICH IT WILL BECOME INVOLVED IN PETROCHEMICALS OR TANKERS. FYI COMPANY HAS \$260 MILLION BUDGETED FOR PRODUCT TANKERS IN CONNECTION WITH PRESENT OPERATIONS BUT IT MUH NEVER GET INTO THIS END OF BUSINESS. END FYI. NEVERTHELESS COMPANY HAS FULL PLAATE OF IMPORTANT TASKS BEFORE IT AND MOST SOLID BACKING EVER OF GOK.

ITS POSITION MAY BECOME EVEN MORE IMPORTANT LOCALLY IF IT GETS  
INVOLVED IN DIRECT CRUDE SALES ON BEHALF OF GOK. MAU UNQUOTE  
KISSINGER

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